

**ST. MARY PARISH
SEWERAGE DISTRICT NO. 8**

Patterson, Louisiana

Financial Report

Year Ended September 30, 2013

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Supervisors
St. Mary Parish Sewerage District No. 8
Patterson, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of St. Mary Parish Sewerage District No. 8 (hereinafter, "District"), a component unit of the Parish of St. Mary, as of and for the year ended September 30, 2013, and related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District, as of September 30, 2013, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 9 to the financial statements, the District implemented the provisions of the Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The District has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kolder, Champagne, Slaven & Company, LLC

Certified Public Accountants

Morgan City, Louisiana
March 25, 2014

BASIC FINANCIAL STATEMENTS

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Balance Sheet
September 30, 2013

ASSETS

Current assets:	
Cash and interest-bearing deposits	\$ 781,182
Receivables	
Customer accounts	15,227
Accrued interest	345
Prepaid expenses	<u>2,947</u>
Total current assets	<u>799,701</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	1,417,407
Refundable deposits	<u>210</u>
Total noncurrent assets	<u>1,417,617</u>
 Total assets	 <u>\$2,217,318</u>

LIABILITIES

Current liabilities:	
Accounts payable	\$ 9,970
Accrued liabilities	85
Customers' deposits payable	<u>28,970</u>
Total current liabilities	<u>39,025</u>

NET POSITION

Invested in capital assets	1,417,407
Unrestricted	<u>760,886</u>
Total net position	<u>2,178,293</u>
 Total liabilities and net position	 <u>\$2,217,318</u>

The accompanying notes are an integral part of the financial statements.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2013

OPERATING REVENUES

Sewer user fees	\$ 181,815
Permits	325
Other customer charges	4,133
Total operating revenues	<u>186,273</u>

OPERATING EXPENSES

Salaries and related benefits	141,426
Supplies and materials	15,231
Other services and charges	124,774
Plant operation	108,766
Depreciation	79,342
Total operating expenses	<u>469,539</u>

Operating loss	<u>(283,266)</u>
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NONOPERATING REVENUES (EXPENSES)

Ad valorem taxes	464,518
Interest income	70,768
Miscellaneous	(1,006)
Net nonoperating revenues	<u>534,280</u>

Change in net position	251,014
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NET POSITION, beginning	<u>1,927,279</u>
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NET POSITION, ending	<u>\$ 2,178,293</u>
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The accompanying notes are an integral part of the financial statements.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Statement of Cash Flows
Year Ended September 30, 2013

OPERATING ACTIVITIES

Revenue collected	\$ 186,851
Payments for goods and services	(255,266)
Payments to employees	(141,426)
Net cash used in operating activities	<u>(209,841)</u>

NONCAPITAL FINANCING ACTIVITIES

Receipts from taxes	464,518
Miscellaneous payments	(1,006)
Proceeds from deposits	1,090
Net cash provided by noncapital financing activities	<u>464,602</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	<u>(22,671)</u>
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INVESTING ACTIVITIES

Interest received	<u>70,423</u>
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Net increase in cash and cash equivalents	302,513
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Cash and cash equivalents, beginning	<u>478,669</u>
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Cash and cash equivalents, end	<u>\$ 781,182</u>
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Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$ (283,266)
Adjustment to reconcile operating loss to net cash provided by operating activities -	
Depreciation	79,342
Changes in assets and liabilities:	
Decrease in receivables	578
Decrease in prepaid expenses	8
Decrease in accounts payable	(4,195)
Decrease in accrued liabilities	<u>(2,308)</u>

NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (209,841)</u>
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The accompanying notes are an integral part of the financial statements.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements

INTRODUCTION

St. Mary Parish Sewerage District No. 8 ("District"), a component unit of the Parish of St. Mary, was created by an ordinance dated August 8, 1984 of the St. Mary Parish Council (formerly police jury). The District is authorized to operate, maintain and improve, extend and/or dispose of all works and facilities for sewer, and sewerage treatment or disposal facilities and systems within the boundaries of the District. The District is governed by a Board of Supervisors appointed by the Council of St. Mary Parish Government.

(1) Summary of Significant Accounting Policies

The accompanying financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

A. Financial Reporting Entity

As the governing authority of the parish, for reporting purposes, the St. Mary Parish Government is the financial reporting entity for St. Mary Parish. The financial reporting entity consists of (a) the primary government (parish council), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, established criteria for determining which component units should be considered part of the St. Mary Parish Government for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability.

This criteria includes:

- 1) Appointing a voting majority of an organization's governing body, and
 - a. The ability of the Parish to impose its will on that organization and/or
 - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Council.
- 2) Organizations for which the Council does not appoint a voting majority but are fiscally dependent on the Parish council.
- 3) Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (continued)

Because the Parish Council appoints the District's governing body, the District was determined to be a component unit of the St. Mary Parish Government, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Parish Government, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

B. Basis of Presentation

The accompanying financial statements of the District have been prepared in conformity with governmental accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Fund Financial Statements

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The proprietary fund is maintained consistent with legal and managerial requirements.

Proprietary Funds -

Proprietary funds are used to account for ongoing operations and activities that are similar to those often found in the private sector. The measurement focus is based upon determination of net income, financial position, and cash flows. The two types of proprietary funds are enterprise and internal service funds. The District's fund is an enterprise fund.

Enterprise Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (continued)

C. Measurement Focus/Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

Business-type activities are presented using the economic resources measurement focus as defined below.

The proprietary fund also utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Assets, Liabilities and Equity

Cash and interest-bearing deposits

For purposes of the statement of net position, cash and interest-bearing deposits include all demand accounts, savings accounts, and certificates of deposits. For the purpose of the cash flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less when purchased.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Unbilled utility service receivables resulting from utility services rendered between the date of meter reading and billing and the end of the month, are recorded at year-end.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the balance sheet date are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the statement of net position. Capital assets are capitalized at historical cost or estimated cost if historical is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$1,000 for capitalizing assets.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets is recorded as an expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

System	25 years
Equipment	5 years
Furniture and Fixtures	5 years

Capitalized Interest

The District capitalizes net interest costs and interest earned as part of the cost of constructing various sewer projects when material.

Bad Debts

Uncollectible amounts due from customers' utility receivables and ad valorem taxes are recognized as bad debts by direct write-off through the establishment of an allowance account at the time information becomes available indicating the uncollectibility of the receivable. Although the direct write-off method is not in conformity with accounting principles generally accepted in the United States of America (GAAP), reported differences between the direct write-off and GAAP-based methods are considered immaterial.

Compensated Absences

All full time employees of the District are eligible to earn vacation and sick leave. Vacation varies with length of service and cannot be carried forward. Sick leave is accrued at a rate of one half day per month and is allowed to accumulate up to sixty (60) days. No sick leave is payable upon termination.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (continued)

Equity Classifications

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

E. Revenues and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenses

Expenses are classified by function for business-type activities. Expenses are further classified as operating and nonoperating.

Proprietary funds report expenses relating to use of economic resources.

F. Budgeting and Budgetary Accounting

Enterprise funds are not required under Louisiana Revised Statute 39:1301 et seq to adopt a budget and the District has elected to not formally adopt a budget. Accordingly, budgeted figures are not presented in this financial report.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (continued)

(2) Cash and Interest-Bearing Deposits

Under state law, the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the union, or the laws of the United States. The District may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. At September 30, 2013, the District has cash and interest-bearing deposits (book balances) totaling \$781,182 as follows:

Petty cash	\$ 250
Demand deposits	36,453
Money market accounts	171,618
Time and savings deposits	<u>572,861</u>
Total	<u>\$ 781,182</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. Deposit balances (bank balances) at September 30, 2013, are as follows:

Bank balances	<u>\$ 811,904</u>
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At September 30, 2013, the deposits are secured as follows:

Federal deposit insurance	489,044
Pledged securities	<u>322,860</u>
Total	<u>\$ 811,904</u>

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District's deposits may not be recovered or will not be able to recover collateral securities that are in the possession of an outside party. The District does not have a policy to monitor or attempt to reduce exposure to custodial credit risk. However, at September 30, 2013, the District's total bank balances were fully insured and collateralized with securities held in the name of the District by the pledging financial institution's agent and therefore not exposed to custodial credit risk.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (continued)

(3) Ad Valorem Taxes

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by the district in September or October and are actually billed to taxpayers in November or December. Billed taxes become delinquent on January 1 of the following year. The St. Mary Parish Sheriff bills and collects property taxes for the District using the assessed values determined by the tax assessor of St. Mary Parish.

For the year ended September 30, 2013, 6.44 mills were authorized and dedicated to sewerage system maintenance. Total taxes levied were \$224,936. There was no tax receivable at September 30, 2013.

Total taxes and interest collected in the current year for assessments made in 2012 were \$229,021 and \$141; respectively. Total taxes and interest collected in the current year for assessments made prior to 2012 were \$235,498 and \$67,423; respectively.

(4) Capital Assets

Capital asset activity for the year ended September 30, 2013 was as follows:

	Balance 10/01/12	Additions	Deletions	Balance 09/30/13
Capital assets being depreciated:				
Sewerage system	2,903,095	19,856	-	2,922,951
Equipment	4,770	-	-	4,770
Furniture	104,630	2,815	-	107,445
Total capital assets	<u>3,012,495</u>	<u>22,671</u>	<u>-</u>	<u>3,035,166</u>
Less accumulated depreciation				
Sewerage system	1,469,010	77,278	-	1,546,288
Equipment	4,770	124	-	4,894
Furniture	64,637	1,940	-	66,577
Total accumulated depreciation	<u>1,538,417</u>	<u>79,342</u>	<u>-</u>	<u>1,617,759</u>
Capital assets, net	<u>\$ 1,474,078</u>	<u>\$ (56,671)</u>	<u>\$ -</u>	<u>\$1,417,407</u>

Depreciation expense was charged to business-type activities in the amount of \$79,342.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (continued)

(5) Employee Retirement

Substantially all employees of the District are members of the Parochial Employees' Retirement System of Louisiana. This system is a cost-sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. This retirement system provides retirement, disability, and death benefits to plan members and their beneficiaries. Pertinent information relative to this plan follows:

Plan Description - The System is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the District are members of Plan A.

All permanent employees working at least twenty-eight hours per week who are paid wholly or in part from the District's funds are eligible to participate in the System. Under Plan A, employees who retire at or after age sixty with at least ten years of creditable service, at or after age fifty-five with at least twenty-five years of creditable service, or at any age with at least thirty years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to three per cent of their final-average salary for each year of creditable service. However, for those employees who were members of the supplemental plan only before January 1, 1980, the benefit is equal to one per cent of final average salary plus twenty-four dollars for each year of supplemental-plan-only service earned before January 1, 1980. Final average salary is the employee's average salary over the thirty-six consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above and do not withdraw their employee contributions may retire at the ages specified above and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established by state statute.

Funding Policy - Under Plan A, members were required by state statute to contribute 9.5% of their annual covered salary and the District was required to contribute at an actuarially determined rate of 15.75% until December 31, 2012. Beginning January 1, 2013, the District was required to contribute at an actuarially determined rate of 16.75%. Contributions to the System also include one-fourth of 1% (except Orleans and East Baton Rouge Parishes) of the taxes shown to be collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and the District are established and may be amended by state statute. As provided by R.S. 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The District's contributions to the System under Plan A for the years ending September 30, 2013, 2012, and 2011, were \$13,412, \$13,857, and \$13,475 respectively, equal to the required contributions for each year.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Parochial Employees' Retirement System, Post Office Box 14619, Baton Rouge, Louisiana, 70898-4619, or by calling (225) 928-1361.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (continued)

(6) Contingencies

The District operates a sewerage plant, which is regulated by the Department of Environmental Quality and the Environmental Protection Agency. In the opinion of the board members, all applicable regulations have received full compliance, however, due to the complexity of the regulations, differing interpretations of the regulations by DEQ and/or the EPA may result in instances of noncompliance.

(7) Compensation Paid to Board Members

Meeting expense paid to the Board of Supervisors for the year ending September 30, 2013, is as follows:

Board members:

James Vidos	\$ 900
Ken Cooper	900
Ray Rentrop	840
Total	<u>\$ 2,640</u>

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has elected to purchase insurance coverage through the commercial insurance market to cover its exposure to loss. The District is insured up to policy limits for each of the above risks. There were no significant changes in coverage, retentions, or limits during the year ended September 30, 2013. Settled claims have not exceeded the commercial coverage in any of the previous three fiscal years.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Notes to Basic Financial Statements (continued)

(9) New Accounting Pronouncements

During the year ended September 30, 2013, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, as applicable.

In April 2012, the Governmental Accounting Standards Board (GASB) approved Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 66, *Technical Corrections- 2012*. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of GASB Statement Nos. 65 and 66 must be implemented by the District for the year ending September 30, 2014. The effects of implementation of these statements on the District's financial statements have not yet been determined.

In June 2012, the Governmental Accounting Standards Board (GASB) approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through plans covered by GASB Statement No. 67. The provisions of GASB Statement No. 68 must be implemented by the District for the year ended June 30, 2015. The effect of implementation of this statement on the District's financial statements has not yet been determined.

INTERNAL CONTROL, COMPLIANCE, AND OTHER MATTERS

KOLDER, CHAMPAGNE, SLAVEN & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Supervisors
St. Mary Parish Sewerage District No. 8
Patterson, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of St. Mary Parish Sewerage District No. 8 (hereinafter "District"), a component unit of the Parish of St. Mary as of and for the year ended September 30, 2013, and related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 25, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and which are described in the accompanying schedule of audit results and findings as items 2013-1 and 2013-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's responses to the findings identified in our audit are included in the accompanying corrective action plan for current audit findings. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on the responses.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Although the intended use of this report may be limited under the provisions of Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document in accordance with Louisiana Revised Statute 44:6.

Kolder, Champagne, Slaven & Company, LLC

Certified Public Accountants

Morgan City, Louisiana
March 25, 2014

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Schedule of Audit Results and Findings
Year Ended September 30, 2013

Part I. Summary of Auditors' Results:

An unmodified opinion was issued on the financial statements of the District's business type activities.

Two deficiencies in internal control were disclosed by the audit of the financial statements and both are considered to be material weaknesses.

There were no material instances of noncompliance required to be reported in accordance with *Government Auditing Standards*.

A management letter was not issued.

Part II. Findings required to be reported in accordance with *Government Auditing Standards*:

A. Internal Control Findings-

2013-1 - Segregation of Duties

CONDITION: Accounting and financial functions are not adequately segregated.

CRITERIA: Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The District's internal control over financial reporting includes those policies and procedures that pertain to the District's ability to record, process, summarize, and report financial data consistent with the assertions embodied in financial statements.

CAUSE: The cause of the conditions is the result of a failure to design and implement policies and procedures necessary to achieve adequate internal control.

EFFECT: Failure to adequately segregate accounting and financial functions increases the risk that errors and/or irregularities including fraud and/or defalcations may occur and not be prevented and/or detected.

RECOMMENDATION: Due to the size of the operation and the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Schedule of Audit Results and Findings (continued)
Year Ended September 30, 2013

2013-2 - Financial Reporting

CONDITION: Management and staff lack the expertise and/or experience in the selection and application of generally accepted accounting principles, as applicable to governmental entities, in the financial statement preparation process.

CRITERIA: The District's internal control over financial reporting includes those policies and procedures that pertain to its ability to record, process, summarize, and report financial data consistent with the assertions embodied in the financial statements, including the ability of its management and staff to detect potential misstatements that may exist in the financial statements and related disclosures.

CAUSE: The condition results from a reliance on the auditor as part of the internal control process.

EFFECT: Financial statements and related notes may reflect a material departure from generally accepted accounting principles.

RECOMMENDATION: The additional costs required to achieve the desired benefit may not be economically feasible.

B. Compliance Findings-

There were no findings reported under this section.

Part III. Findings and questioned costs for federal awards required to be reported in accordance with Office of Management and Budget Circular A-133

The requirements of OMB Circular A-133 do not apply to the District.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2013

A. Internal Control –

2012-1 - Segregation of Duties:

CONDITION: Accounting and financial functions are not adequately segregated.

RECOMMENDATION: Due to the size of the operation and the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

CURRENT STATUS: See schedule of audit results and findings item 2013-1.

2012-2 – Financial Reporting:

CONDITION: Management and staff lack the expertise and/or experience in the selection and application of generally accepted accounting principles, as applicable to governmental entities, in the financial statement preparation process.

RECOMMENDATION: The additional costs required to achieve the desired benefit may not be economically feasible.

CURRENT STATUS: See schedule of audit results and findings item 2013-2.

B Compliance –

There were no findings previously reported under this section.

C. OMB A-133 –

This section was not applicable.

ST. MARY PARISH SEWERAGE DISTRICT NO. 8
Patterson, Louisiana

Corrective Action Plan for Current Audit Findings
Year Ended September 30, 2013

Response to Finding 2013-1:

Due to the size of the operation and the cost-benefit of additional personnel, it is not feasible to achieve complete segregation of duties.

Response to Finding 2013-2:

The financial reporting process will continue to be outsourced to the District's external auditors due to the increased costs necessary to correct the condition.